

Changing Priorities for Asia Business Leaders

By **MUKUND SRIDHAR**, Senior Partner, McKinsey & Company

NEW PRIORITIES



The power of data and technology



The sustainability and growth circle



Organic growth and alliances



Speed and agility



Purposefulness



The Asian century is well underway. As Asia's corporate landscape shifts towards services, digitising and climbing the value chain, the economy is making way for hyperglobalised, technology-driven companies. The role of corporate leaders and their priorities need to evolve as well.

Covid-19 is here to stay as an endemic disease. And Asia's corporate leaders are now focused on positioning their businesses for success in an era that is not only likely to be volatile but also shaped by accelerating technological shifts and the existential threat of climate change. As economies rebound, companies are increasingly under scrutiny for how seriously they take their responsibilities to the full range of stakeholders – customers, suppliers, citizens and governments.

Firms will need to build new capabilities to succeed in the Asian century, where regional flows and networks are defining the next phase of globalisation. The once-in-a-lifetime pandemic

has left virtually no aspect of business untouched. Leaders have had to identify a new set of urgent priorities to cope and keep up with the ever-shifting situation.

Against this backdrop, five themes stand out on what firms should do:

1. Capitalise on the power of data and technology to win in the borderless economy.
2. Square the sustainability and growth circle, and lead the energy transition now.
3. Create scale through organic growth, alliances, and mergers and acquisitions.
4. Put speed and agility at the centre of the organisation.
5. Live the purpose – and communicate.

1. The power of data and technology

Covid-19 accelerated digitisation and automation. In an increasingly borderless economy, digital platforms and other technology-based tools could contribute significantly to a sustainable recovery in the region.

Digitisation offers corporate Asia fertile ground for value creation, and technologies are being adopted in this region faster than anywhere else. The spread of digital technologies in Asia is enabled by a relatively fluid system across borders. Digitally-savvy consumers are not only generating vast pools of data but also seem more willing to share them than other populations.

The phenomenon of “super apps” is far more prevalent in Asia than in Western economies. Pioneered in China, these apps are spreading across the region as economies increasingly integrate. Associated with popular mobile

applications, these apps tend to offer cross-sector solutions, from commerce to mobility, healthcare, finance, entertainment and social networks.

As digitisation continues to generate a vast pool of data, companies in the region stand to benefit from new ways to market, sell and provide services – while consumers frequently receive these services free or at little cost.

Going forward, corporate leaders will need to develop capabilities to continuously use technology to drive cross-sectoral opportunities and monetise the value generated from these massive pools of data. Potential pitfalls include intellectual property rights and consumers' concerns about data privacy. Importantly, leaders need to be aware of a rapidly evolving regulatory landscape around data.

2. The sustainability and growth circle

Achieving growth in a sustainable (and inclusive way) is a challenge for CEOs everywhere but arguably a more complex balancing act in Asia, where economies are potentially more exposed to physical climate risks. As pressure to embrace sustainability grows among consumers, investors and employees (particularly the young), businesses and policymakers are responding.

A rising number of companies in Asia are committing to setting a science-based target for emissions reduction: 33 companies did so in 2018, 60 in 2019, 107 in 2020, and over 260 in 2021. Five Asian countries have existing or proposed legislation mandating net-zero emissions, and 15 have put net-zero emissions into policy documents.

Despite these complexities, Asia is in a strong position to play a critical role in the global energy transition. Take renewable energy, which is expected to account for about 40 per cent of average annual global energy investments until 2025. China and India have the highest and the fourth-highest installed global capacity, respectively. These two economies also have the lowest cost of solar and onshore wind energy, and are expected to be responsible for most of the global growth in solar and wind.

There will be new investment opportunities. To reach net zero by 2050, McKinsey estimates that spending on physical assets needs to increase by 60 per cent, from some US\$5.7 trillion (S\$7.7 trillion) today to US\$9.2 trillion. Asia is expected to represent a large share of global investment.

3. Organic growth and alliances

Scale matters. Traditionally, Asian corporations have tended to favour alliances and ecosystem building over mergers and acquisitions (M&A), using the complementary strengths of different Asian economies. However, organic and alliance-based approaches may not be sufficient, so corporate leaders may need to up their M&A game.

Fewer than 10 per cent of M&As in Asia are programmatic, half the global benchmark of 20 per cent. Programmatic M&A involves a series of deals that materially add market capitalisation by building businesses. Research shows that, while large deals still have their place, programmatic M&A strategies continue to create gains in excess total returns to shareholders, at lower levels of risk.

Successful exponents of programmatic M&A are proactive allocators of their capital. A McKinsey survey showed they are 1.7 times more likely to reallocate M&A capital regularly to business units that align the most with the company's strategy, and 1.5 times more likely to say which assets to sell as well as to buy.

Companies can strive to create a virtuous cycle by scaling beyond their own borders in a strategic way, and by driving both external alliances and programmatic M&A to acquire new capabilities. They can achieve a technological advantage through scale in a digital ecosystem and maximise the benefits that come from the complementary nature of Asia's constituent economies by ensuring the most effective geographic coverage.

4. Speed and agility

Looking ahead, business leaders can prepare employees for the disruptions that technology may bring to their roles and help them to achieve personal growth. Asia's corporate leaders have learned to be agile and move rapidly. Now CEOs can look to strengthen these attributes beyond a crisis. For instance, shortening planning horizons (as they did at the height of the pandemic), removing silos, revisiting organisational structures, accelerating decision-making through delegation, and changing the way people work.

In advanced Asian economies, new working models such as remote and hybrid work offer organisations much greater opportunity to access talent anywhere, anytime. Automation and artificial intelligence will significantly

disrupt the labour market, and the pace of adoption appears to be accelerating. By 2030, up to 220 million Chinese workers (30 per cent of the workforce) may need to transition between occupations as a consequence of automation.

Equally, employees seek an enhanced sense of purpose in their work as well as social and interpersonal connections with colleagues. One way to deepen relationships with employees is to ensure lifelong learning opportunities and culture are built into the organisation. Research by SkillsFuture Singapore suggests that a 10 percentage-point increase in the proportion of local workers sponsored for training could produce a 0.7 per cent revenue increase in four years.

5. Purposefulness

Individuals with a clear sense of purpose thrive during crises (and in normal times) – so do companies. Purpose defines why a company exists; it is a fundamental commitment going far beyond the quarterly profit statement. Business leaders say that a clearly defined purpose continues to matter as companies pick up the pieces after the pandemic. However, the evidence suggests they can communicate that purpose more effectively.

A Conference Board analysis of 285 companies in Asia found that purpose as a topic accounted for only 17 per cent of the messaging over a 12-month period. In the case of local Asian companies, the share

was 15 per cent (versus 23 per cent among multinationals).

Firms should set the tone for disclosure and stakeholder engagement, and stay up-to-date on standards and regulatory requirements. Delivering a consistent message, whether by the board to investors, or management to clients, is key to setting expectations. Companies with a robust sense of purpose also tend to adopt environmental, social, and governance (ESG) factors into the core of decision-making. Leaders can seek to create alignment across all business units to change the organisational perception of ESG from being a cost centre to a source of competitive advantage.

The five priorities are a starting point to rethink what it takes to be a 21st century corporation in Asia. Business leaders can use this as a framework when evolving their role and strategic

thrust in line with Asia's shifting corporate landscape. What has worked in the past may no longer be fit for purpose in the next stage of development. ■